WC 07-150

FIVE AREA TELEPHONE COOPERATIVE, INC.
P.O. BOX 448
MULESHOE, TEXAS 79347-0448

RECEIVED & INSPECTED
JUN 15 2007
FCC - MAILROOM

May 31, 2007

Albert Lewis
Acting Division Chief, Pricing Policy Division
Federal Communications Commission
Room A225
445 12th Street SW
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

RE: Five Area Telephone Co-op. Inc. – Study Area 442071
Prepaid Other Post-retirement Employee Benefits

Dear Mr. Lewis:

By this letter, Five Area Telephone Co-op. (Five Area) requests that the Commission grant it the authority to include in its rate base the interstate portion of its prepaid Other Post-retirement Employee Benefits (OPEB).

Background

Five Area is a rate of return incumbent local exchange carrier (ILEC), and it participates in the National Exchange Carrier Association (NECA) common line and traffic sensitive pools. Five Area serves approximately 6,800 lines in Texas. As a NECA pool participant, Five Area is an issuing carrier for the NECA access tariff, NECA Tariff F.C.C. No. 5, and bills rates prescribed in that tariff.

Five Area engages CHR Solutions, Inc. (CHR) to assist in completing its annual cost separations studies used in reporting its interstate costs to NECA. These costs are included in the NECA pools. Five Area's rate base is a key factor in the determination of its revenue requirement for each of the NECA pools.

As a benefit to its employees, Five Area offers post-retirement benefits, including health care and life insurance. These benefits are generally referred to as "Other Post-retirement Employee Benefits" (OPEB). These benefits are pre-funded by Five Area through a pre-funding trust sponsored by the National Telephone Cooperative Association (NTCA). Five Area's financial statements reflect an OPEB related prepaid balance includable in Account 1410 of $709,234 as of December 31, 2006.

Section 65.820(c) of the Commission's rules allows inclusion of amounts in Account 1410 in the rate base, "only to the extent that they have been specifically approved by this

Commission for inclusion."[1] In its 1997 Part 65 OPEB Treatment Order, the Commission established that where a carrier "can show that any of its assets recorded in Account 1410 (including prepaid OPEB) meet the used-and-useful standard, we will allow that asset to be included in the interstate rate base."[2]

Five Area's request in this letter is similar to that made by Roosevelt County Rural Telephone Cooperative Inc. (Roosevelt) in a letter to the Wireline Competition Bureau dated October 25, 2004 (Roosevelt OPEB Letter Request).[3] In its letter, Roosevelt requested Commission approval to include in its rate base the interstate portion of prepaid post-retirement health benefits recorded in Account 1410. On March 14, 2006, the Commission released an order (Roosevelt OPEB Order) granting Roosevelt's request.[4]

Petition

In accordance with section 65.820(c) of the Commission's rules, Five Area seeks approval to include the interstate portion of its prepaid Accumulated Post-retirement Benefit Obligation (APBO) in its rate base. For the 2006 cost separations study, the addition to the average rate base would be approximately $650,000. The estimated interstate access portion of this addition to the 2006 cost study year rate base would be $229,481, and the estimated interstate return on the interstate portion of the prepaid APBO would be $35,877 at the current 11.25% interstate rate of return. While the size of the increased settlement is significant to Five Area, we believe that any impact on the overall NECA pool revenue requirements and universal service funding would be *de minimis*.

Five Area's accumulated prepaid amounts associated with OPEB are maintained in a trust with NTCA. The amounts earn interest and serve to reduce the annual expenses associated with OPEB obligations. Therefore, Five Area's prepaid OPEB amounts meet the Commission's used-and-useful standard. Attached is a letter from the NTCA attesting to these facts.

Based on the fact that the Five Area's prepaid OPEB amounts meet the Commission's used-and-useful standard and consistent with the Roosevelt OPEB Order in response to the Roosevelt OPEB Letter Request, Five Area requests that the Commission grant authority for Five Area to include in its rate base the interstate portion of the prepaid OPEB amounts recordable in Account 1410 effective with the date that such prepayments were made.

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[1] 47 C.F.R. § 65.820(c).
[2] Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base, CC Docket No. 96-22, Report and Order, 12 FCC Rcd 2321, FCC 97.56n (Rel. Feb 20, 1997) ("Part 65 OPEB Treatment Order") at Par. 12.
[3] Letter from Scott Arnold, General Manager, Roosevelt County Rural Telephone Cooperative, Inc., to Chief, Wireline Competition Bureau, Federal Communications Commission (October 25, 2004).
[4] Roosevelt County Rural Telephone Cooperative, Inc. Petition to Include the Interstate Portion of a Prepaid Accumulated Post-retirement Benefit Obligation, Recorded in Account 1410, in the Rate Base, WCB/Pricing 05-31, Order, FCC 06-31 (rel. March 14, 2006).

Please direct any requests for information or questions in regard to this petition to:

CHR Solutions, Inc.
Mike Czerwinski, Senior Director – Financial Services
2711 LBJ Freeway, Suite 560
Dallas, TX 75234
972-484-2323
mike.czerwinski@chrsolutions.com

Yours truly,

Sandy Vandevender
Executive Vice President / General Manager
Five Area Telephone Co-op.

Attachment

NTCA
The Voice of Rural Telecommunications

April 26, 2007

Memorandum

TO: Juan Leal

FROM: Lisa Altman, Sr. FAS 106 Technician

SUBJECT: Five Area Telephone

On April 25, 2007, we discussed the FAS 106 liability and how that liability is impacted by the FAS 106 Prefunding in which Five Area Telephone participates. This prefunding does play a partial role in lessening the overall FAS 106 liability of the company. This reduction of the liability manifests itself in several ways:

1. The Expected Rate of Return on Assets (determined by Lake Consulting Inc., the FAS 106 Program) is historically set as to what the return would be over a 30-year period depending on the investment philosophy of the prefunding Trusts. The FAS 106 statement requires that we use the Expected Return on Assets when performing the FAS calculation. This Expected Return on Assets is included in the Net Periodic Postretirement Benefit Cost section of the FAS 106 valuation and in this calculation the expected return reduces the liability which in return reduces the annual expense for that particular year.

2. The Total Assets on deposit as of the first day of the year are also included in the calculation process. The Assets reduce the Accumulated Postretirement Benefit Obligation (APBO) creating the Unfunded APBO figure. This Unfunded APBO has several areas of impact, including interest calculations, the Accrued/Prepaid figure and the Net Loss/Gain Calculations.

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3. The prefunding account also has a direct impact on the Financial Statements of the company. As the Assets on deposit accrue earning (either negative or positive), the company would have this asset to offset the liability that would be accruing on the financial statements.

These are a few of the advantages of FAS 106 Prefunding and how they impact the FAS 106 liability being reflected on the financial statements. If you have further questions, do not hesitate to contact me by phone at (828) 255-2972 or by e-mail at lbennie-altman@ntca.org.

LBA